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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

Audit Staff
1201 Key Building

EXTENSION

NO.

DATE

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Inspector General
2 E 24 Hqs.14 Mar 1974 *DF*2. *DDI Mrs*

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14 MAR 1974

MEMORANDUM FOR: Inspector General

SUBJECT : Comments on [redacted]
Report on the Audit Functions of the
Central Intelligence Agency

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1. The [redacted] report is a fair and constructive appraisal of the manner in which Agency internal audit functions are being accomplished. Their findings are consistent with those generally presented as a result of General Accounting Office initial reviews of other government agencies internal audit functions. I believe the Company's recommendations should be given utmost consideration by Agency management. My comments on their suggestions and recommendations follow.

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Program Audits

2. [redacted] raises two fundamental issues — the need to emphasize the program audit approach and the need to de-emphasize the frequency of financial/compliance audits. The report refers to the requirement for program audits contained in Federal Management Circular 73-2 which incorporates the auditing standards established by GAO in June 1972. The auditors recommend that the DCI encourage audits of program performance and inform all managers accordingly, and that the Audit Staff present a plan outlining (a) a method for providing adequate financial and compliance coverage less frequently, (b) short and long-range objectives for training staff and gaining experience in program auditing, and (c) a revised audit policy statement.

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3. A revised audit policy statement in the form of a new regulation [] is now in the hands of the Regulation Control Staff. This regulation together with formal support from the DCI and the Management Committee would provide the impetus necessary to expand program auditing within the Agency.

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Reduction in Frequency of Financial/Compliance Audits

4. The second fundamental issue raised by [] is the reduction in frequency of financial/compliance audits — the type of audits usually made by the Audit Staff. We have reduced the frequency of our visits to small stations and bases to every two years and are planning to reduce the frequency of audits of certain Headquarters activities. However, I do not agree that all audits should be placed on a three year cycle. In view of the extensive cash operations overseas, I propose that we continue to audit large Stations and monetary operations annually. Based on Mr. Colby's reluctance to shift to less frequent audits in 1972, I believe this approach to be reasonable. However, we do plan to review each audit activity against selected criteria to determine the optimum frequency of audit. Our Fiscal Year 1975 audit plan will incorporate these concepts and will be coordinated with Agency managers.

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Assignment of Auditors

5. [] recommends the assignment of one or two auditors each year at grades 13 to 15 into other Agency positions. This proposal has merit. The auditors wide range of experience in dealing with elements throughout the Agency operating here and overseas and in diverse activities gives him a perspective which others do not have the opportunity to acquire. Industry in particular finds this a most useful technique in the development of future managers. I would be willing for the staff to participate in such a plan.

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Counseling of Employees

6. [] suggests the need for better communication with employees concerning their performance and

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potential. In the past formal communication occurred at the time of preparation of the annual fitness report but the employee was not told where he stood in relation to others in his grade. We plan to advise employees of their relative standing.

[redacted]

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7. [redacted] suggests it may be necessary to phase out [redacted] our Certified Public Accounting firm, if the Agency changes its audit policy on frequency of audit. Some audits by [redacted] already are on a two year cycle. Because [redacted] provides the only detailed financial review by the Agency [redacted] I am reluctant to schedule their audit less frequently than every two years. We review [redacted] workload periodically and should it fall significantly, we will reduce the staff.

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8. I do not agree with the [redacted] comment that published annual audit reports for [redacted] could possibly be done more efficiently by [redacted]. Our experience indicates that their unfamiliarity with Agency operations often precludes a meaningful audit. Also, their billing rates are considerably higher than our direct labor costs and the rapid turnover in public accounting firms requires frequent clearance of new personnel.

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Cooperation Between Inspection and Audit Staffs

9. The auditors' comments on closer cooperation between the Inspection Staff and Audit Staff would have been more appropriate under conditions which existed prior to the recent reduction of the Inspection Staff and the elimination of their periodic inspections of components. Now that the Inspection Staff has only one or two inspectors available for joint efforts, the comment appears academic. There has been closer cooperation under the present Inspector General and areas where joint efforts are possible have been discussed.

ADP Operations

10. [redacted] suggests (a) formalization of the Office of Computer Services (OJCS)/Audit Staff interface to facilitate effective audit and (b) provision of necessary

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resources to carry out its ADP responsibilities. We have drafted an interface proposal for presentation to OJCS management. We are continuing to train auditors in ADP who will be available to assist in the ADP area when needed. However, we agree that an expanded effort in ADP would require additional personnel.

Audit Standards

11. [redacted] suggests the Audit Staff develop and adhere to specific standards and develop a review mechanism to ensure the maintenance of those standards. We plan to revise our present Audit Handbook to provide for the additional guidelines needed. To monitor adherence to the standards, I have instructed the Deputy Chief, Audit Staff to review programs, working papers, and reports in each audit division periodically.

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Chief, Audit Staff

Distribution:

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